THE CONVERSION OF THE ECONOMIST

Arnold Toynbee begins his account of the Industrial Revolution with the statement that "the bitter argument between economists and human beings has ended in the conversion of the economist." This conversion has been effected "not by the fierce denunciation of moralists," nor by the "mute visible suffering of degraded men," but by the "chill breath of intellectual criticism."

> Assailed for two generations as an insult to the simple natural piety of human affections the political economy of Ricardo is at last rejected as an intellectual imposture. The obstinate blind repulsion of the laborer is approved by the professor.

Another equally authoritative statement of a very similar opinion is found in Sidney and Beatrice Webb's classic review of economic wage-theories. Their conclusion is, however, much more sweeping in its denunciation, and in it the blind repulsion of the laborer assumes the character of unerring intuition. Briefly their conclusion is summed up in the following words:

> Thus economic authority today, looking back on the confident assertions against trade unionism made by M'Culloch and Mill, Nassau Senior and Harriet Martinear, Fawcett and Cairnes, has humbly to admit, in the words of the present occupant of the chair once filled by Nassau Senior himself, that "in the matter of [Trade] Unionism, as well as in that of the predeterminate wage-fund, the untutored mind of the workman had gone more straight to the point than economic intelligence misled by a bad method."

Economists have gone wrong so persistently in the past that the Webbs are "loth to pin their faith to any manipulation of economic abstractions," even when such abstractions are consistent with the intuitions of the untutored mind, and therefore probably correct.

In any line of scientific inquiry the discrediting of the expert in his own special field, and preferment of the untutored mind must be regarded as disquieting, and for the expert humiliating. The probability that the untutored mind, whether of workman or of merchant or lawyer, or in fact the mind of any but a trained

expert should go straight to the point would seem small in the field of economic research—rather less than that it should solve correctly some of the more difficult equations with which the astronomer attempts to work out the play of the force of gravitation upon celestial bodies. The interplay of economic motives in the industrial world is at least as mysterious and difficult of analysis as is the working of the simple force of gravity. In this difficult field, while the untutored mind has been going straight to the point, it must be admitted that the expert has seemed at times to wander off into devious and uncertain paths, which have appeared to have no definite goal or point whatever; and it cannot be taken for granted that his propensity for wandering into the regions of subjective psychological analyses, somewhat remote from the everyday interests of the business world, has been entirely satisfied. Meanwhile, moreover, he has developed a fatal facility in the art of self-criticism and recantation. The small fund of doctrine upon which the profession has somewhat grudgingly agreed, has been attacked from within by one expert after another, until it has seemed almost to disintegrate. Ignoring for the moment Arnold Toynbee's implication that the older economists are not to be classed as human beings, to what, it is pertinent to ask, has the economist of today been converted, as regards the laws determining the remuneration of labor?

One who attempts to answer this question must experience considerable embarrassment. After all conversion is a personal experience and it cannot be assumed that economists have gone over *en masse* to any new doctrine. To indicate discarded tenets of the old faith is a much simpler task than to identify the positive *credo* of the new, which is generally far less simple and naïve than the old. Regarding the earnings of labor, however, economic analysis and constructive thinking seems, generally, not to have kept pace with the increasing complexity of the industrial world, where every day wages are in fact determined by the working of economic forces. At least some economists seem today farther than ever from understanding how they are determined—uncertain whether or not they are determined or even tend to be determined economically, and somewhat disposed to believe

that they may be determined by labor-organization, by legislative enactment, or by something which they call standard of living, or cost of living, or more commonly still by some sort of higgling in the market. They seldom believe that economic forces work to determine wages very certainly at any amount for any grade of labor. They may believe that there is a maximum limit above which wages cannot rise, if the amount of capital is to be maintained unimpaired; and a minimum limit at the subsistence point for labor. These limits are very wide apart, and within them wages are not economically determined at any point. These are the boundaries of a debatable land, marked out by Mr. and Mrs. Webb—a region which may be taken up by labor or capital, according as one or the other has a higgling advantage in the market.

Even the boundaries of the debatable land are obviously vague and shifting—are, indeed, not boundaries at all, since wages do, in fact, rise in many employments above the point where impairment of capital sets in; and do in fact sink far below the subsistence point, for whole groups of labor, remaining there permanently, or until the group has been decimated or dispersed. There is no hitch in the downward course of wages for any group of labor at the subsistence point. Economic history gives ample evidence that economic forces have no regard whatever for standards of living, or means of subsistence, nor have they any regard for the accumulated fund of capital with which labor is equipped. The economist who accepts the debatable-land theory of wages seems to have stultified himself to the extent of confessing that he cannot penetrate the complex of economic forces acting to determine wages in the market. His power of analysis is inadequate. No other science seems to have so small a fund of elemental doctrine upon which to build, and no other science in recent years seems to have so stultified itself with recantation and self-criticism; until the university instructor has found it difficult to avoid the hypocrisy of teaching what he does not believe, and has been forced, as one American economist observed to the writer, to seek a refuge in economic history. This perplexity of the expert

may be evidence of a transitional stage in economic thinking. The period of absolutism has certainly passed in economic science, as it is passing in philosophy and ethics, and in the new economics there appears to be little disposition to test out theories, or to establish new working hypotheses. It follows naturally that the economist has had little courage to undertake the refutation of the straight and narrow logic of the untutored mind.

Clearly recent economic speculation has gotten very far away from the simple notions of the older economists. Their deductions involved, it is contended, a false theory of population, a false theory of individualism, a false assumption of perfect competition, a disregard of other than economic instincts, and an unwarranted optimism regarding the beneficent and certain working of economic laws. Finally, industrial development has instituted new conditions to which their conclusions do not apply. It is an extraordinary fact that this older economics, so false and unreal in its assumptions, should have exerted a powerful influence in the community for a long period of years, that the economist who stood for these false doctrines should have been consulted by statesmen, and that his economics should have shaped social policies. It is also interesting to note that this older economics was an organic development of natural and social sciences. It was in line with those evolutionary doctrines with which the names of Darwin and Spencer are associated. It was underneath such practical reforms as were consummated in the new system of poor-relief, and in repeal of the corn laws. It was positive in its criticism of political and social programmes involving the welfare of labor. It had the courage to declare conclusions from which modern economists shrink, even when those conclusions seem to be an inevitable consequence of their own reasoning. Beginning with its attack upon the old régime of government regulation, it was relentless in its criticism of the more or less specious humanitarian philosophies. If the dismal science was false, it was nevertheless effective—more effective than the new and more correct economics of the present day. This is perhaps to be explained by the fact that the older eco-

nomics had some of the attributes of the untutored mind in going more straight to the point.

We have, it is true, gotten very far away from the crude reasoning of Adam Smith, Malthus, Ricardo, Mill, and Cairnes, but the evolutionary trend of modern thought is not at all clear. In fact the process of disintegration has seemed to gain rapidly upon the work of constructive thinking. While economists have been largely occupied with their postmortem dissections of the theories of past masters in the science, the untutored mind, with its qualities of positive directness, has elaborated marvelous philosophies, which have been at least popularly accepted as constituting a new humanitarian economics. Although economists, by their preoccupied silence, may have seemed to acquiesce in the new doctrines, their conversion is rather assumed than by them declared, and it is conceivable that when they once get their mind off the dissecting table, they may find occasion to renounce certain tenets of the new faith which has been foisted upon them. At least it would seem in order to ask for a suspension of judgment in certain matters where the economist is not as yet hopelessly committed, since a striking characteristic of the new doctrines, which are offered as a substitute for the impliedly abstract, ethereal reasoning of the older economists, lies in the fact that they are themselves largely grounded upon a few simple fundamental assumptions—one might almost say presumptions—which are as yet unverified. If the assumptions underneath the old economics were unwarranted, certainly some of those underlying the new doctrines require verification before they can be finally written into economic science. One or two of the more fundamental assumptions now passing current popularity may be noted here, by way of entering a plea for open-mindedness.

The older economists assumed a high degree of competitive freedom among the agents engaged in production, and it is contended that this assumption was never fully warranted, that competition is less free today than formerly, and that the normal tendency under capitalism is still further to restrict it by combination and monopoly. It is generally conceded, even by those who assert this restriction of freedom, that the capitalistic system

broke down the old régime under which wages and other incomes were determined by custom and instituted a régime under which all incomes were in the beginning determined more or less competitively, but it is felt that in its later stages, capitalism has achieved an organization of industry unfavorable to freedom of competition. It may be noted in this connection that the capitalistic system is even today as frequently attacked on account of its competitive character, as it is on account of its innate monopolistic tendencies. The depression of wages is as frequently assigned to the working of cut-throat competition, as to the grinding oppression of capitalistic combinations. Well-intentioned employers are, it is contended, forced to reduce wages by pressure of competition with less considerate and more unscrupulous employers. The unfit employer and type of industrial organization tends to survive, and to lower the "plane of competition." It is not at all clear, in fact, whether the evils of capitalism are to be attributed to its monopolistic or to its competitive character, but, in any case, there would seem to be little ground for assuming that competition is tending to become less effective as a regulator of economic incomes. At least much evidence may be cited to the contrary. The institution of machine industries has made it possible for labor to move more freely from one industry to another. A handicraftsman could not easily change his occupation, but a good mechanic today may enter any one of a wide range of employments, and pass easily from one to another. As industry becomes more highly capitalized, and processes become more mechanical, the choice of employments open to individual laborers widens. It is a commonplace that labor moves more easily today than ever before from one community to another, following the local demand for labor. On the side of capital, also, in at least some respects, the tendency is toward more perfect fluidity. There has never been a time when capital sought out more keenly the most profitable employment. The building up of banking and financial institutions whose chief function is the wise investment of capital is one of the great achievements of the present generation. Investment has become a highly organized and highly specialized social function. The immense banking

reserves, insurance funds, and concentrated earnings on large aggregations of capital, require for their protection and investment the services of a numerous corps of experts whose grasp of the future must be far sighted, imaginative and infallible. A slight margin of profit appearing in any field is more certainly and quickly detected than ever before, and is sufficient to attract the flow of accumulating wealth. It is doubtful if there has ever been a period when the assumption by the economist of freedom of competition in the adjustment of supplies of labor and capital was more justified by actual conditions than it is today.

In its practical bearings the conclusion that incomes, including wages, are not determined competitively, or that competition is becoming less effective and free, is of fundamental consequence; since if they are not determined competitively, they are probably determined arbitrarily—by the capitalistic employer, or by labor organizations, or by legislative enactment; and if so determined arbitrarily our whole social philosophy must be rewritten and adjusted to that fact. Where wages are low, it will then appear, the responsibility rests with the employer who arbitrarily depresses them. The natural remedy will lie in legislation to raise them, or in organization to force them up arbitrarily. On the other hand, if wages are competitively determined, the remedy for low wages lies in some readjustment of the supply of labor, in drawing off the surplus of labor, in industrial training, and education—the evil is economic, and the remedy must contemplate concrete changes in economic conditions. In one case the process of amelioration of the condition of labor is properly conceived in terms of warfare and class-struggle; in the other, in terms of industrial education and development, and social co-operation. In view of the practical significance of these conclusions, the assumption that freedom of competition is more and more inhibited under capitalism ought to be well grounded. The evidence on this point is, perhaps, not absolutely conclusive and clear, but in the opinion of the writer the weight of evidence is contrary to the popular assumption.

A second assumption underlying these new social philosophies is equally fundamental, equally subversive of traditional economic

teaching, and its truth equally open to question. It lies in the assertion that labor-problems are essentially problems in the distribution of wealth, not in the production of wealth. In support of this contention the marvelous increase in the productivity of industry during the past century is cited. The quantity of wealth produced is declared to be sufficient to provide for the welfare of all. If labor received in wages what it produces, the well-being of the laborer would be assured. Without entering into any discussion of the difficulties involved in determining individual shares where masses of labor, manual and managerial co-operate with masses of capital to perform industrial services, it may be pointed out that the above assumption that there is enough wealth produced cannot be verified statistically. It may be contended that statistics are notoriously misleading, but as Bertillon has observed, they are so only for those who have not sufficient intelligence to interpret them correctly. And, however inadequate our statistics of wealth-production may be, they ought certainly to weigh well against unverified opinion. The simple statistical fact is that in no modern industrial nation is the amount of wealth produced sufficient to maintain a high standard of living for the whole population. The most liberal estimate could hardly figure out an average income, for a family of four members, of a thousand dollars a year.[1] Even this low average income might not be maintained under any other system of wealth-distribution than the present one. That those who today produce and earn incomes above this amount would continue to render their services under a system of economic distribution which devoted a portion of their product, large or small,

[1] Professor Marshall estimates average income in England per family of *five* at £185 (*Principles of Economics,* p. 48). Mr. Bowley estimated the national dividend in Great Britain in 1903 at £2,000,000,000; as the population of the country at this time exceeded 40,000,000, the income per family of four would fall below $1,000. It may be noted that Mr. Griffin in 1901 estimated the national dividend at approximately £1,500,000,000. According to a table of per-capita incomes given by Mulhall (*Industries and Wealth of Nations,* p. 391) no other European or American country has so large a per-capita income as that enjoyed by Great Britain. In this table per-capita incomes of the following, among other countries, are given: United Kingdom, £36; France, £31.2; Germany, £24.7; Russia, £9.5; Holland, £25.8; Europe, £19.3; United States, £44.

to the reward of those less efficient, and that they would maintain their efficiency unimpaired cannot be taken for granted, so long as self-interest plays so important a part as a motive to economic exertion as it does today. The more probable consequence would seem to be reduction in the amount of wealth produced. Without speculating upon the probable consequences of any such radical change in the distribution of wealth, however, it is clear that the average income per family which our present rate of wealth-production could maintain, is somewhat below the average annual earnings of manual labor in certain occupations. Labor of any considerable degree of skill earns, in the United States, a daily wage of $3.50, or more, and thus provides for a family of four a standard of living as high as could be enjoyed by any family under a system of equal distribution of the total wealth-product of the community. Such a standard is far from being economically high. While the power to produce wealth has increased enormously under the capitalistic system, it is still inadequate to supply the common necessities and comforts to the whole population. In a word, the problem is only superficially a problem in distribution of wealth: fundamentally it is today, as it was in Malthus' time a problem in production. The future welfare of labor depends mainly, not upon the institution of some new principle of wealth-distribution. Where the total product is so small, no method of distributing it can provide a competence. It does not follow that labor should cease from its effort to secure a larger share by organization or any other means, but the great promise of improvement in the condition of labor lies in increased production, not in some new process of division. In the past increase in wages has been achieved under capitalism through improvement in the processes of production, and more effective industrial organization, and only to a very slight degree through schemes of social reform. Such schemes have always encountered an insuperable difficulty in that obstinate fact which has been well characterized as the niggardliness of nature. No sort of higgling in the market can make the sum of wages greater than the whole product. Here again the practical conclusions from the assumption are of vital consequence. Misconception

concerning the amount of wealth available for the payment of wages and other incomes has bred a cynical indifference to standards of efficiency. The meagerness of the remuneration earned by labor is conceived to be due to exploitation, not to any insufficiency in the means of economic well-being. This whole philosophy of exploitation depends of course directly upon the assumption above considered, that economic incomes are arbitrarily determined. The degradation of labor is due to exploitation, and social amelioration thus again comes to depend upon the issue of a class-struggle, not upon industrial progress. The class-struggle is directed against a relatively small group of capitalistic employers, who are able, under the present industrial order, to divert to their own consumption an immense stream of wealth. That a very considerable amount of wealth is so diverted in some countries, and that the condition of labor is thereby worsened, may be conceded, but statistics do not justify the extravagant notions which prevail generally.

It should be observed here that the question is not primarily concerned with concentration of wealth-ownership. Whatever evils attach to such concentration, it does not necessarily, nor practically, imply abstraction of wealth from the consumption or service of the community. Those who own the community's capital do not increase their consumption of the annual product of labor in proportion to their ownership. Production is naturally directed toward satisfaction of the community's wants, because in the satisfaction of these wants capital earns its highest rewards. Beyond a certain point simple ownership confers little power to consume, and practically the full power to consume is not exercised. So far as large aggregations of capital are concerned, ownership is mainly a matter of administration and organization, not of consumption. Assuming, however, that the consumption of the rich represents a sort of spoils abstracted from wages of labor, its amount relatively to total product is insignificant, and no hope of any considerable improvement in the condition of labor through the taking over of the spoils of the rich is justified.

It is interesting to note how this assumption that the capital-

istic system is one of exploitation has woven itself into the texture of economic reasoning, and popular discussion. To a very considerable extent the programme of unionism is grounded in the belief that labor does not receive in wages an equivalent of what it produces, and the purpose of labor-organization is through collective bargaining to secure this surplus product for the wage-earner; no doubt obtains as to the existence of the surplus. The more scientific development of the thesis is to be traced to Carl Marx's theory of surplus value, which is seized upon by owners of the instruments of production. The surplus-value product of Marx may be more or less clearly identified as the debatable-land product of the Webbs, i. e., that portion of the product which is not economically determined to labor or capital —a sort of no-man's product, to be seized upon by those who possess the power to appropriate it in the absence of any valid economic claim to it. Again, it underlies such theories as Mr. Hobson's theory of under-consumption, and of industrial crises, according to which the consumptive power of labor, which is limited by the amount of the wages of labor, is not sufficient to provide for the consumption of the product of industry. The result is an accumulation of commodities in the hands of producers and merchants, which eventually stops the wheels of industry and precipitates a crisis.

If the capitalistic system is essentially one of exploitation, the condition of labor ought, it would seem, to become progressively worse under it, as the system becomes more firmly established. Statisticians and others are, however, agreed that the condition of labor has improved, and that wages have advanced rapidly—more rapidly, in fact, than have other incomes. It is true that a high degree of accuracy does not attach to wage-statistics in different countries, but the advance in wages which such data as can be obtained seem to indicate, is too great to be offset by any probable margin of error.[2] Perhaps the most

[2] Our own census figures, which seem to show that average annual wages have doubled during the last five decades are not in themselves conclusive, but they are in the main borne out by other investigations, official and unofficial. Mr. Griffin's investigation of the progress of the working-classes in England

conspicuous economic fact of the last century, and the one best attested by statistics is the advance of wages with the productivity of industry, in proportion as it has become capitalized.

Another assumption in the new economics, involving the welfare of labor, may be briefly noted. It declares that under capitalism the status of labor is rigidly fixed. This assumption is commonly associated with a naïve interpretation of economic history so gratuitous and unsubstantiated that its acceptance by any economist is difficult to explain. According to it the industrial revolution is conventionally summed up in the statement that it consummated a change from a system of production under which labor normally progressed from the condition of apprentice to that of journeyman and finally to that of master-workman, and employer—ordinarily he married into his employer's family—whereas under our present régime he does not normally progress through these stages, but remains a wage-earner all his life. Only a few exceptional individuals escape into the employing group. Such a statement, as it is popularly interpreted, is entirely misleading. The handicraftsman, under conditions obtaining before the industrial revolution, certainly did not escape from the manual labor class more frequently than he does today. No employer class existed into which he or anyone else could rise. Economically the opportunities for advance open to labor were much more restricted than they are today. Socially and politically the status of labor was rigidly fixed and also exceedingly restricted. No career other than that of manual labor was open to him. On the other hand, as regards

led him to the conclusion that real wages had increased in a period of forty or fifty years ending in the eighties, from 70 to 100 per cent. Mr. Bowley, in a study of the period since the eighties, concludes that the advance has been continuous. In France official data published annually by the Office du travail give the following index-numbers, as representing the percentage movement of wages, wages in 1900 being taken as 100:

1806	1810	1820	1830	1840	1850	1860	1870	1880	1890	1900	1905
46.5	47	48.5	50	52	56.5	64.5	76	92.5	98	100	104

Emile Levasseur's statistical study of the consumption of the French population during the nineteenth century, based upon independent data, arrives at conclusions entirely consistent with the official statistics of wages. For other countries conclusive data are not obtainable covering any considerable period, but there is ample evidence of rapid amelioration in the condition of labor.

the employer class today, it is largely made up of individuals who have done exactly that which it is asserted cannot be done. The "captains of industry," good and bad, today, have so commonly come up out of the ranks of labor as to make the assumption of a fixed status for labor untenable.

In one other respect, the economist's renunciation of the old faith appears positive and certain. He appears to have conceded that the old Spencerian philosophy of individualism has been proved in error, and conversely that the beneficence of the state in undertaking the guardianship of individual welfare has been demonstrated beyond a doubt. The philosophy of individualism upon which English-writing economists of the last generation builded so well has gone by the boards; and he would be bold, indeed, who should presume to champion it against the growing paternalism of the government. The ideal of equality has been substituted for that of individual excellence. And yet what a splendid fight might yet be made for individualism in the industrial world. The record of democracy for efficiency is far from convincing, and the dangers inherent in extension of the powers of government are clearly discernible. The most serious consequence of this extension of the scope of government function has been impairment of the efficiency of government in the exercise of those very functions for which a government is properly instituted—namely, the administration of simple justice between individuals. It would seem that the growing complexity of industrial relationships offers a sufficiently wide field for the exercise of government functions, without contemplating the assumption of other responsibilities. It is significant that the peoples which have depended least upon government administration, have been in the past, as they are today, the most progressive—and most progressive and well to do in that period of their history when they have enjoyed greatest immunity from political control. Even the English, which have been the freest and economically best conditioned race in Europe, seem in the Australian colonies, with a more favorable natural environment, to have come under a partial blight of democratic paternalism which has retarded economic progress, and undermined individual initiative. The essential point is, however, that neither

has the philosophy of individualism been proved in error, nor the beneficence of paternalism been satisfactorily demonstrated.

Has the bitter argument really ended in conversion of the economist? And, if so, to what has the economist been converted? Granted that the crude but splendid logic of Malthus and his followers must give way before modern criticism, is the economist willing to concede to the untutored mind the virtue of infallibility in his own field of scientific research? Is he willing to concede that economic incomes are to any considerable degree determined arbitrarily by decree of employer, or labor-union, or legislative body, and that efficiency is no longer the great determining condition of material well-being? Is he willing to concede that the capitalistic system under which the wages of labor have steadily advanced is essentially one of exploitation of the masses by the classes? Finally, is he willing to abandon the ideals of individualism, and to prefer those of social equality and standardization? Is it not conceivable that the economist, in the spirit of humility, has conceded too much to the popular contention that the welfare of labor is advanced mainly through the waging of industrial warfare and class-struggle, rather than through the perfection of industrial organization and co-operation? There would seem to be little justification for the assumption that the price or wages of labor is more amenable to legislation or organization than is the rate of interest or the price of food, or even the yield of grain per acre. The conversion of some modern economists to the economics of the untutored mind is still happily largely presumptive, and implied from the failure of economic science generally to develop a positive doctrine of its own—a doctrine divested of all intellectual mysticism and subjectivity, practical and simple in its conclusions, and yet so well grounded as to be capable of resisting the refinements of expert criticism. Meanwhile, ought the economist to allow even the presumption of conversion to stand?

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